

looking ahead

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In This Issue—

THE ECONOMIC OUTLOOK FOR 1962

by Gerhard Colm

U.S. BALANCE OF PAYMENTS AND THE INTERNATIONAL MONETARY SYSTEM

by Theodore Geiger

ECONOMIC PROJECTIONS IN THE COMMON MARKET

the people of NPA

The Economic Outlook for 1962

by Gerhard Colm

NPA Chief Economist

The Consensus

RECENT ECONOMIC FORECASTS for 1962 show a great deal of agreement that recovery is likely to continue throughout the year. The present upswing has developed a momentum which is likely to carry it through a second year. Most estimates of the 1962 GNP lie in the range of \$560 to \$570 billion in current prices, or \$540 to \$550 billion in 1960 prices. For the year as a whole, this would mean a level of activity about 10 per cent above that estimated for the trough of the recession in the first quarter of 1961. It would mean some slowing down of the pace of recovery in the second, compared with the first, year of the upswing. Unemployment would be reduced below the present 7 per cent but not below the 5 per cent level. Prices would remain relatively stable. Thus, there appears to be among the economists a general mood of restrained optimism.

Whenever there is general agreement, it is useful to be especially careful to make certain that the analysts have not reached similar conclusions because they have made the same fallacious assumptions.

The Nonconformists: The Optimists

Fortunately, there are nonconformists among the economists, such as the experts of *Fortune* magazine, who expect a superboom with inflationary consequences. It may be useful to look at those factors which *could* contribute to such a boom. The recovery so far has been stimulated largely by the substantial increase in government expenditures supported by a swing in inventory holdings from liquidation to accumulation. Consumer spending, residential construction, and business outlays for plant and equipment have been rising, but have not played a leading part in the recovery. They have responded rather hesitatingly to the increase in activities and incomes.

The optimists think that this period of hesitation may come to an early end. Any indication that the current international tension is not likely to result in an armed clash might restore consumer confidence and result in increased buying, particularly

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• "We seek by our aid program to deal with three great forces in the world. The first is the powerful demand for social justice and economic progress which is consuming the attention of more than one-third of the world's population. The second is Communist imperialism determined to capitalize on the unrest in the new nations. The third and most powerful of all is the force of freedom. We are among the leading spirits of that force and its present center of power.

"The great contest today is between the forces of totalitarianism and the forces of freedom. I am confident that any nation given a free choice will choose freedom. Our task is to help the nations which have not slipped into that other world either maintain the choice of freedom which they have already made or make the choice where they have not already done so."

From a statement by Secretary of State Dean Rusk, made before the Senate Appropriations Committee in support of the Act for International Development and the International Peace and Security Act, August 21, 1961.



of durable goods. There are indications that 1962 will be a record automobile year. The surveys of business intentions to invest in plant and equipment, taken in the fall of 1961, show only a relatively small—4 per cent—increase above the level expected for 1961. However, the optimists argue that these intentions are likely to be revised upward once the rate of business operation of existing facilities shows a substantial rise. This attitude of business may be strengthened by the Government's intention to provide tax incentives for business investment. In general, the Administration's effort to win the confidence of the business community is expected to pay off in increased business investments.

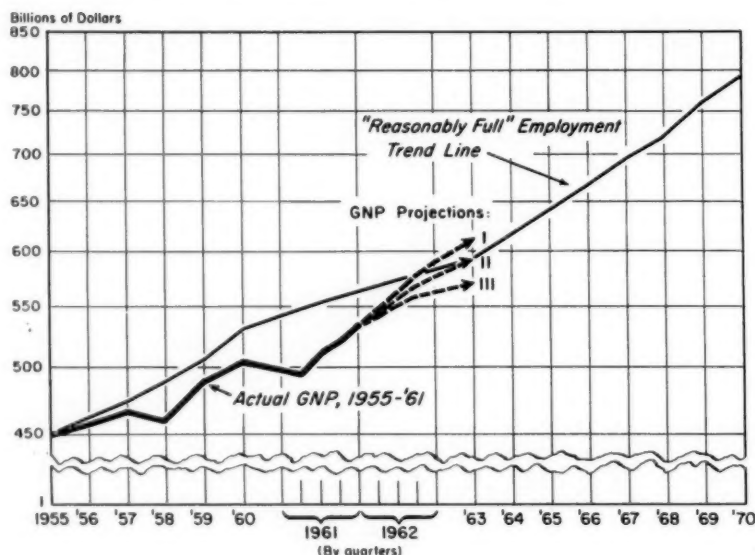
If a continued increase in government expenditures should coincide with an increase in consumer spending and business investment outlays in excess of those indicated by the most recent surveys, then the development of an inflationary boom as indicated by the Forecast I of the accompanying chart would not be impossible. If national security programs should again be increased substantially, such a development may occur next year. Except under these conditions, I would share the opinion of most observers that an inflationary superboom is not probable in the foreseeable future.

The Nonconformists: The Pessimists

There are also those who do not necessarily disagree with the estimates of production and employment for 1962 as a whole but believe that the recovery may flatten out, or even that a downturn may occur later in the year. It will be useful to analyze the unfavorable factors which are pointed out by various pessimists among the economists.

There is first the fact that the factors primarily responsible for the recovery during 1961 may lose some of their steam. Government expenditures will continue to rise, but the greatest impact occurs when orders are placed, not when payments are made. Unless existing defense programs are stepped up and new ones adopted, the impact from this source will be less in 1962 than it was in 1961. Similarly, the expected increase in inventories will not add as much to production as it did when the shift from liquidation to accumulation occurred. With respect to investments in plant and equipment, the intention surveys show, as mentioned above, an increase by 4 per cent from 1961 to 1962, but the fourth quarter of 1961 is expected to be more than 3 per cent above the average of the year. Also, these estimates allow for some cost increase in building and equipment, so that the surveys show a picture which is somewhat less encouraging than it appears. In addition, the outlook

Gross National Product (In 1960 Prices)
Actual 1955-1961 and Projected 1961-1970



for residential construction is rather dim, particularly if a rise in interest rates should take place. An increase in interest rates is expected because this has usually happened in the second year of a recovery and also because the anticipated balance-of-payments difficulties could possibly result in a tight money policy.

Finally, these pessimists fear that we may repeat one of the policies which contributed to the early interruption of the recovery of 1959/60 when the Federal Government shifted rapidly from a large deficit to a surplus in the budget. The President has already expressed his intention of submitting a balanced budget for the fiscal year 1963. The question is whether such a budget might not again result in an abortive recovery movement.

Another possibly unfavorable movement might be the threat of a steel strike, which would increase inventory accumulation in the first part of 1962 but might result in inventory liquidation later on. In combination with other factors, it would have an unfavorable net effect later in the year. Thus, the pessimists conclude that a development like that indicated by Forecast III of our chart is most likely, and they look with particular concern to 1963.

Crucial Issues for 1962

A review of the arguments which are advanced by the optimists and the pessimists shows that economic forecasts cannot be left entirely to the electronic computer. In each economic situation there are factors which have been operating in the past and are likely to be operating also in the future. Such factors can be expressed in equations and

their impact can be computed with complete objectivity. Mathematical forecasts have resulted in figures within the range of those quoted as "consensus" at the beginning of this article.

But then, there are questions as to the developments of international tensions with their impact not only on the Government's national security programs but also on consumer and business psychology. We can make great mistakes if we assume that the reaction in one political crisis situation will be the same as it was in a previous one. This was demonstrated by the different reactions in the Korean and the Berlin crises.

Another factor of uncertainty is government policy. The President's intention of submitting a balanced budget for the fiscal year 1963 (provided no substantial increase in national security programs becomes necessary) is regarded by many as a crucial factor influencing the business outlook. The chart shows the development of expenditures and receipts in the conventional budget for the fiscal years 1958 to 1963.

Even though the figures for the fiscal year 1963, estimated before transmission of the budget, are highly uncertain, one fact stands out. In the period 1959/60, not only did revenues increase as a result of the recovery but expenditures were also cut back. Whether or not we will have a balanced budget and whether or not we have a restrictive expenditure policy in the fiscal year 1963, expenditures will continue to rise. This development, and the very different existing money policy, means that it is by no means a certainty that the recovery of 1962/63 will follow the unhappy pattern of that of 1959/60.

Nevertheless, there is reason for concern. In the chart,

Federal expenditures are projected at \$94 billion. It is believed that this is a realistic estimate assuming that the Government pursues those programs in the fields of national security, education, space exploration, area redevelopment, housing and urban redevelopment, foreign aid, and so on, which have been initiated or which have been included as deserving of high priority in the program of the Administration. Taking the estimates of individual incomes, and of corporate profits which are consistent with the \$560 to \$570 billion of the consensus referred to above, it is difficult to see how Federal revenue could exceed \$92 billion in the fiscal year 1962/63, even assuming that the Congress acts favorably on the proposal for an increase in postal rates, and also that there will be some action on investment incentives and the closing of tax loopholes, with some revenue loss as a net effect. It is also assumed that the methods and practices of budgeting will remain the same.

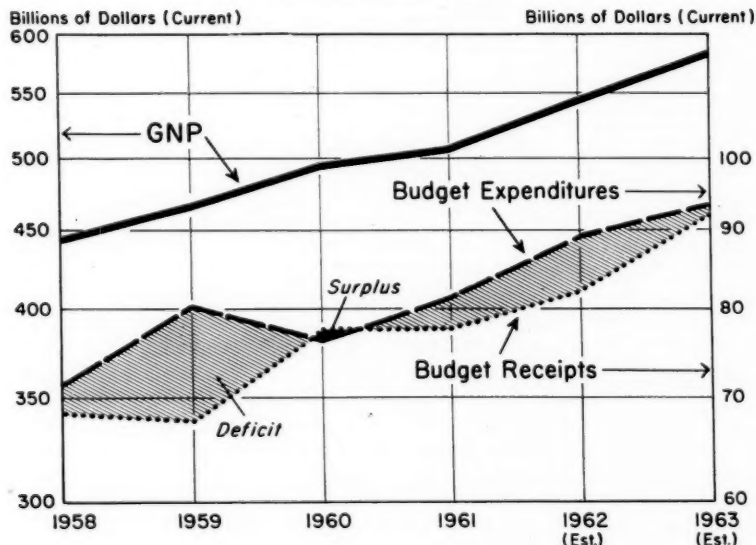
Furthermore, there is the possibility that corporate profits in 1962 may decline in relation to the GNP, in which case even our revenue estimates may turn out to be on the high side. It appears hazardous to make a commitment for a balanced budget as long as there is a probability that the economy still moves substantially below the full employment level. The pledge to achieve a balanced budget may force the Administration to cut back programs which are held desirable for their own sake and which would give desirable economic support if the pace of recovery should become sluggish. A balanced budget, or a budget surplus, for the fiscal year 1963 would be achieved without such cutbacks if the recovery should proceed at a faster pace than it now appears prudent to assume.

Restrictive budgetary and monetary policies will find additional advocates if rising tendencies in prices and costs should reappear in the course of the year 1962. A price rise is certainly undesirable both for domestic reasons and for international competitiveness. However, if prices have a rising tendency while the economy is still operating below a general capacity level, other means than restrictive fiscal and monetary policies should be used to maintain reasonable price stability.

Also, the balance-of-payments problem may be aggravated in 1962, which would bring about a serious dilemma. There will be voices urging that a tight fiscal and monetary policy is the only way out. There are, however, ways of responding to balance-of-payments difficulties which are less harmful for economic development as a whole. In the next article, my colleague Theodore Geiger discusses these alternatives and the difficulties involved.

However, these crucial issues will affect the longer-run economic outlook more than that for 1962. For 1962,

Comparison of GNP Budget Receipts and Expenditures (Fiscal Years 1958-1963)



I am not persuaded by either the optimists or pessimists, and I will stick with the GNP estimate of \$560 to \$570 billion (\$540-\$550 billion 1960 dollars) which I referred to as the consensus of most forecasters. I would think that a figure closer to the lower end than to the upper end of that range is most probable. I first published this estimate several weeks ago, before the preliminary McGraw-Hill survey of business plans for capital outlays in 1962 became available. As mentioned before, this estimate suggests only a very small increase in the level of installation of plant and equipment in real terms above the level expected to be reached in the fourth quarter of 1961. The \$560-570 billion estimate of GNP implies a considerably larger increase in capital outlays. It is not unrealistic to assume that the final McGraw-Hill survey will bring an upward revision of the preliminary results, as has happened in previous recovery periods. The development of new orders for machinery and equipment seems to justify this hope. If such an upward revision should not materialize, the 1962 estimate given above would be on the high side.

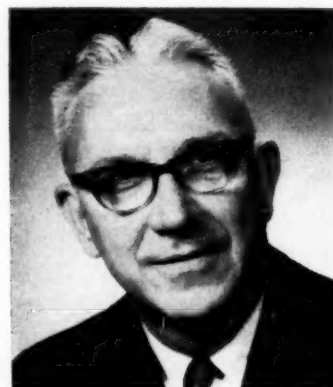
Strategic Decisions in 1962

The economic outlook for 1962—continued recovery at a moderate pace—is largely the result of strategic economic decisions made late in 1959 and early in 1960. The Administration did not accept the advice of those who counseled that the pace of recovery should be speeded by tax cuts and emergency public works expenditures (e.g. as implied by the Clark bill). Presumably, the President's decision was motivated by two reasons, namely the concern with the international tension and its consequences, and the consideration that recommendations for additional short-term anti-recession measures might have endangered Congressional approval of the President's longer-range programs.

In making strategic decisions in 1962, the Administration will be influenced by considerations pulling in opposite directions. There is the desire to show a balanced budget in order to document the "soundness" of fiscal policy. There is concern with price and cost rises, and most of all with renewed balance-of-payments difficulties. Whether for valid or invalid reasons, these considerations suggest the possibility that tight fiscal and monetary policies might be adopted, which would tend to slow down recovery and economic growth in the year 1963 and thereafter. An influence in the opposite direction will be the desire to reduce unemployment and to increase the rate of growth in order to be better able to meet high priority objectives at home and in the international field. The U. S. Government has agreed with the Western European countries and Canada that policies designed to achieve increased rates of growth will be adopted in the Western World.

It is my conviction that ways must and can be found which permit pursuing these long-range objectives and at the same time achieving reasonable price stability and adjustments in the balance of payments. On the successful solution of these problems depends the economic outlook for the years beyond 1962.

— The People of NPA —



Dean O. Bowman

In his capacity as Vice President, Long-Range Planning for Autonetics, a division of North American Aviation, Inc., Dean O. Bowman, a member of the NPA Business Committee, is responsible for preparing and maintaining integrated over-all long-range plans for an organization of more than 29,000 people which has accomplished pioneer work in developing inertial navigation and guidance systems, flight and armament control systems, multipurpose radars, solid state computers, automatic testing, and general purpose inspection equipment.

An economist and a corporation planning executive with over 25 years of experience in the field, Dr. Bowman is a graduate of Purdue University (B.S. and M.S.) and of the University of Michigan (Ph.D.), and has served on the faculties of both these universities.

In the course of his World War II Army service, Dr. Bowman was assigned to the OSS. In the following years he held various responsible positions in both government and industry, including: Regional Price Executive and Deputy Regional Administrator of the OPA for the Midwest; Chief, Foreign Trade Section, Japan-Korea Economic Affairs Division, Department of State; Assistant Chief, Commercial Policy Division, Department of State; Assistant Director, Office of Industry and Commerce, Department of Commerce; Assistant Administrator, Policy Coordination, National Production Authority; and Director, Long Range Planning, Crown-Zellerbach Corporation.

In 1953, the Gold Medal, highest Department of Commerce award, was conferred upon Dr. Bowman for exceptional performance in the public interest.

Dr. Bowman is a member of: American and Western Economic Associations; the Governor's Technical Advisory Committee for Economic Development, State of California; Business Advisory Board, School of Business Administration, American University; Institute of Strategic Studies (London); and Phi Kappa Phi. He is also the author of the book, *Public Control of Labor Relations*, published by the MacMillan Company in 1942.

The U.S. Balance of Payments and the International Monetary System

by Theodore Geiger

NPA Chief of International Studies

DURING THE FIRST six months of 1961, the U.S. balance of payments had a moderate deficit of about \$1.6 billion at an annual rate. In the third quarter of 1961, however, the deficit increased to an annual rate of over \$3 billion. In some recent weeks, substantial outflows of gold have been reported. In consequence, a number of observers have begun to fear that a situation might be developing similar to the speculative wave against the dollar that occurred a year ago.

Whether or not another run against the dollar takes place this winter, the increase in the balance-of-payments deficit is a matter of concern both to the Administration and to international banking and business circles. Maintaining foreign confidence in the stability of the dollar is regarded by the Administration as an important consideration in favor of presenting a balanced budget to the Congress in 1962. However, as explained by Gerhard Colm in the preceding article, there is a strong probability that increases in expenditures for national defense and military assistance abroad, the exploration of space, and various important domestic programs will exceed projected increases in revenues and will result in another deficit in the Federal budget next year.

Thus, the United States is for the first time being made fully aware that it, too, faces a dilemma similar to that which has plagued the British in much more acute fashion throughout the postwar period. In perhaps oversimplified form, the problem may be stated as follows: how can a country, with international responsibilities of the highest importance and with large and growing unmet needs for public and private investments at home, preserve adequate freedom to adopt the policies required to achieve these essential domestic and foreign goals while at the same time maintaining external confidence in its currency? While all important trading nations face this problem in some degree, it is particularly serious for the United States and the United Kingdom, the two countries whose currencies have been most extensively used for international reserve and payments purposes.

Under the existing international monetary system—alternatively called the gold/exchange or key-currency system—foreign central banks and national treasuries hold substantial portions of their monetary reserves in the form of dollars and sterling. They do so not only because there is insufficient gold in the world for this purpose, but also as a matter of convenience and to earn interest on that portion of their dollar and sterling holdings which they keep on deposit or invested in New York and London. Many foreign banks, investment houses, and business firms also keep substantial amounts of temporarily unused funds on deposit in New York and London or invested in short-term paper of various kinds. At present, the amount of such official and private funds in the United States is about \$1 billion in excess of our gold reserve of approximately \$17 billion. It is highly unlikely that foreign governments and private bankers and business firms would request immediate conversion of all or most of these funds into gold or other

convertible currencies. Nonetheless, loss of confidence in the stability of the dollar or the attraction of higher interest rates in other banking centers (e.g. London, Zurich, Frankfurt) could start a movement on a smaller scale of such short-term funds out of the dollar. This process often has a self-accelerating character owing to the activities of speculators and the efforts of importers and exporters either to protect themselves against or to profit from a possible devaluation of the dollar (so-called "lead and lag" operations).

Economists distinguish between two aspects of the balance-of-payments deficit of a major trading nation like the United States. There is, first, the so-called basic deficit which arises when outpayments for imports of goods and services, for private long-term capital invested abroad, for foreign aid, and for national defense purposes exceed earnings from exports of goods and services, from income on long-term capital previously invested abroad, from repayments of loans by foreign governments, etc. Second, there is the additional strain which arises from the conversion of short-term funds by foreign dollar holders, who either are alarmed at the magnitude of the basic deficit or by the fear of domestic inflation within the country, or are attracted by higher interest rates elsewhere, and from the "short" sales of speculators against the dollar. It is this secondary effect which makes the drain on the U.S. monetary reserve a matter of urgent concern. Paradoxically, however, it also interferes with the carrying out of the kinds of remedial measures which could overcome the basic deficit in a manner consistent with achievement of domestic and international goals of major importance both to the United States and to the other free nations.

There are essentially two kinds of remedies open to the United States for overcoming a balance-of-payments deficit.* The first would be for the U.S. government to adopt a restrictive fiscal and monetary policy, which would simultaneously reduce public expenditures, and hence domestic demand, and would raise interest rates. In consequence, there would be a tendency for the level of domestic economic activity to decline; for import demand to be reduced; for exports to be stimulated; and for short-term funds to be attracted from abroad by higher interest rates. In addition, a reflux of funds would rapidly occur as the speculators sought to cover their "short" positions and exporters reversed their "lead and lag" transactions.

The alternative method of overcoming a basic deficit in the balance of payments is to adopt measures which stimulate capital investment and productivity increases, and hence heighten the competitive ability of the country to market its exports abroad. However, this method requires time to be effective and does not have the immediate psychological impact of restrictive monetary and fiscal measures.

* Other possibilities, e.g. devaluation of the dollar, deliberate reduction of imports and capital investment abroad, or drastic cuts in foreign aid are not discussed here because both their economic and their foreign policy consequences would be very damaging to the United States and its allies and friends.

ures. A major use of the large U.S. gold reserve is to finance a basic deficit while constructive measures to increase productivity and the entrepreneurial vigor of export industries are being carried out. But the volatility and unpredictability of the factors causing the secondary strain, as well as the natural preference of central bank and treasury officials, work for choice of the faster-acting deflationary method.

During the past year, the Administration has attempted with considerable skill and some success to reconcile these two approaches, and has buttressed this compromise policy by enlisting the cooperation of European countries and strengthening the International Monetary Fund. Instead of raising interest rates at home, which would have adversely affected recovery from the 1959-1960 recession, it has persuaded the British to reduce somewhat the higher interest rates prevailing in London. It is counting upon the economic upswing and proposed tax incentives to increase productive investment and stimulate the competitiveness of U.S. export industries. But, it has proclaimed its intention of balancing next year's Federal budget in order to reassure foreign bankers and businessmen that domestic demand would not become too buoyant as the U.S. recovery progresses. It has economized on the use of dollars in foreign aid programs and military defense activities abroad. It has begun to accumulate other convertible currencies (especially Swiss francs and German marks) to use in the event that foreign holders begin to sell dollars on an increasing scale. Although no public announcement has been made, it appears to have obtained the informal agreement of European central banks to continue to hold dollars, perhaps by offering them an informal gold guarantee. It has taken the lead in the International Monetary Fund to increase the institution's access to additional amounts of continental European currencies which could be drawn upon by the United States and the United Kingdom if needed.

Ingenious as they may be, these measures are still only palliatives, and would be effective at best only during the early stages of a future run against the dollar. They would not be adequate to meet a major international monetary crisis, nor probably even to counteract the effects of a further substantial worsening of the U.S. balance-of-payments deficit. The latter could occur, for example, after the United Kingdom and other European countries join the Common Market. The coming into effect of the common external tariff of the enlarged European Economic Community could result in a significant decline in U.S. exports to Western Europe at least temporarily during the period when the United States would be negotiating for mutual tariff reductions with the Common Market. And, if the Congress fails to give the President greatly increased authority to negotiate such tariff reductions with the enlarged European Economic Community, the adverse impact on the U.S. balance of payments would not be temporary and could well be even larger. Conversely, however, the balance-of-payments deficit of the United States would be substantially eased by mutual tariff reductions, as U.S. exports to the enlarged Common Market would be likely, on the basis of the existing trend, to grow faster than would U.S. imports from Europe. Moreover, if sterling becomes part of a new and more effective European monetary arrangement, which the United States was either unwilling or unable to join, the dollar would thereafter be exposed to the full brunt of short-term money movements and self-accelerating speculative waves.

Whether future movements against the dollar will remain within manageable limits will also depend upon the domestic economic situation in the United States, particularly upon the rate and extent of the economic upswing and the

psychological impact of possible budgetary deficits. Balance-of-payments considerations could inhibit U.S. economic growth and achievement of essential international and domestic objectives, while such shortfalls could in turn exacerbate balance-of-payments problems. This reciprocal adverse effect is one of the major defects of the key-currency system that has become apparent since the passing of the dollar shortage, the restoration of currency convertibility, and the emergence of substantial U.S. payments deficits. Over the longer term, this defect will become more serious in consequence of the liquidity problem to which Professor Robert Triffin of Yale University has called attention in recent years. He warns that, with only limited increases in prospect in the world's gold supply, the future growth of world trade will depend upon expanding the use of the key currencies as international means of payment and reserves. But, the larger the proportion of key currencies in the international monetary system, the greater the danger and the more serious the consequences of the instability of the key currencies.

These short-term difficulties and long-term dangers call into question the capability of the existing key-currency system to maintain international currency convertibility and a high and rising level of international trade. It would not be difficult to figure out the main characteristics of a more effective international monetary arrangement. Because of the limited world supply of gold and the unlikelihood that it will increase at a greater rate in the future, central banks and national treasuries must have an alternative medium in which to hold their monetary reserves. For the same reason, supplementary exchange resources are required to finance a high and rising level of international trade. This function of supplementing gold as a medium of exchange and a store of value was performed primarily by sterling during the interwar period and predominantly by the dollar since World War II. But it could be a great deal better performed by an international monetary unit specifically designed for the purpose. Under suitable institutional arrangements, such an international monetary unit would enable national central banks and treasuries to hold all or parts of their monetary reserves in a form immune to the adverse effects of short-term monetary movements and speculative waves. Under careful and skilled management, the supply of such an international monetary unit could be expanded and contracted to meet the needs of international trade. Confidence in such an international monetary unit would not be adversely affected by the domestic economic policies or the high-priority international commitments of any individual country.

Another function that a new international monetary arrangement would perform better than existing arrangements would be close and rapid support of the currency of any member whose monetary reserves were being depleted by excessive short-term capital movements and by speculation. Indeed, the existence of such a system would in itself be a major psychological deterrent to unmanageably large short-term money movements and to speculative waves. In addition, the international monetary institution might directly engage in transactions of various kinds designed to maintain an orderly international money market.

A proposal embodying most of these features was made a few years ago by Professor Triffin and has been receiving gradually increasing support both in the United States and in Western Europe. His plan would transform the International Monetary Fund along the foregoing lines. As yet, however, neither the Fund nor any of its leading mem-

(Continued on page 8)

Economic Projections in the Common Market

SEVERAL YEARS AGO, the High Commissioner of the European Coal and Steel Community (ECSC) charged a group of economists with the task of formulating a methodology for long-range economic projections which could be jointly applied by the member countries. An immediate practical reason for development of such techniques arose from the need by the ECSC to make multicountry projections of coal and steel production and to anticipate the area's energy requirements.

The report, published recently in Brussels by the Statistical Office of the European Communities,* elaborates on the scope of the original assignment. It lays the groundwork for a comprehensive kit of projection tools which the rapid evolution of economic cooperation within the European Economic Community (EEC) and other multinational institutions makes almost a necessity.

In what they obviously regarded as a preliminary survey, the experts made no attempt to present a unified projections methodology for the EEC as a whole; institutional and structural differences among the countries, conceptual issues, and differences in the time span and substance of economic goals would render such an attempt premature. They hope, however, to have advanced a considerable portion of the way toward this broad objective.

The report—published in the four EEC languages, and in English—is clearly written and organized, and presents a very good survey of projections research, useful quite apart from the geographic focus. For the general reader, there is a comprehensive chapter on the nature of the investigation and principal findings; for the specialist, detailed chapters are supplemented by elaborate appendix material.

There is space here to list only a few of the substantive highlights. The experts rely discreetly on econometric schema, where useful. But the report is not wedded to a particular approach. "Judgment" estimates are given an important role where statistically derived relationships are found unsuitable. The discussion, which frequently cites British and American data for purposes of comparison, covers the merits and drawbacks of different techniques: extrapolations, surveys, mathematical models, iterative procedures, input-output schemes. The report recommends, as a first order of business, a unified approach to over-all supply estimates ("production functions"); here the experts find the scarcity of capital stock data among the member nations particularly glaring. Next, aggregate demand projections are introduced, with a balancing of supply and demand estimates brought about by successive approximations at the detailed sectoral level, and involving the use of a proposed "17 by 17 input-output matrix," which the experts have drawn up with a particular view to international comparisons.

* "Methoden zur Vorausschätzung der Wirtschaftsentwicklung auf Lange Sicht," Bericht einer Sachverständigengruppe (Methods for Long-Range Economic Projections, Report of an Expert Study-Group), *Statistische Informationen*, No. 6, November/December 1960, 194 pp., Statistical Office of the European Communities.

The document distinguishes between *reine Vorausschätzung* (pure forecasts) and *intentionellen Projektion* (projections with specified premises), where the former excludes, and the latter incorporates, some degree of goals-oriented decision making. Both approaches are regarded as useful in the process of quantifying the long-run economic future.

—Joel Darmstadter

Economic Growth and Investment in Education

A POLICY CONFERENCE on Economic Growth and Investment in Education was held by the 20-nation Organisation for Economic Co-operation and Development in Washington, D.C., October 16-20, 1961. The OECD, which came into being on September 30, 1961, is the successor to the Organisation for European Economic Co-operation (OEEC), established thirteen years ago; the change of name reflects the fact that two non-European countries, Canada and the United States, have now become full members of the Organisation.

The Conference reflected the growing interest in the role played by education as a key factor in economic growth. In discussing why and how targets for educational expansion in the advanced countries might be related to the needs of the underdeveloped countries, it emphasized the pressing problems of the day.

According to the estimates reported at the Conference, the needs for expansion in the OECD area in terms of pupils, teachers, buildings, and expenditure over the next decade, mean no less than doubling of educational expenditure from all sources.

In the underdeveloped countries, where human resources will play a vital role, the needs are so overwhelming that only bold and imaginative policies are likely to succeed. The Conference recognized that for some time there will exist an inevitable gap between the needs of underdeveloped countries for qualified personnel and the capacity of their educational systems to produce them. Thus the advanced countries should adjust their own targets for educational development so as to be able to aid in furthering the economic expansion and educational development of the underdeveloped countries, essential both for their own and for the general welfare.

For sound educational planning, the Conference stressed these vitally important needs:

- * Reliable, internationally comparable, statistical data on pupils, teachers, buildings, and finance.

- * Continuing studies on all the factors relating to future enrollments, including the manpower structure.

- * Research into methods of school building in order to reduce building costs.

Professor Theodore W. Schultz, Chairman of the Department of Economics, University of Chicago, and a member of the NPA Board of Trustees, was the expert adviser to the U.S. Delegation at the OECD Conference.

Looking Ahead

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(Continued from page 6)

ber governments have been willing to commit themselves to such a development. In consequence, a proposal has recently been made by Jean Monnet to establish a European monetary system, which would take care of the needs of the Common Market, particularly after the United Kingdom becomes a member. However, it is generally recognized in Europe by those who favor a new monetary arrangement that it would be much more effective if it were to include the United States and Canada as full members. It is obvious that there would be compelling reasons for the United States and Canada to join the new system.

Regardless of whether new arrangements are worked out through the International Monetary Fund or are limited to the Atlantic nations, the need to overcome the existing weaknesses and to prevent the prospective dangers of the key-currency system is becoming increasingly urgent. For the United States, with its imperative world-wide responsibilities and pressing unmet needs at home, the task of maintaining the dollar as the international monetary system's major key currency is becoming more difficult and frustrat-

ing. More effective international monetary arrangements would give the United States much greater freedom of action and time both to achieve its foreign policy and domestic goals and to take the constructive measures required to overcome its basic balance-of-payments deficit. To continue to rely upon mere palliatives is to risk disaster both in domestic and in foreign policy.

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NATIONAL PLANNING ASSOCIATION

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Vol. 9, No. 9

December 1961



Form 3547 Requested



A NONPROFIT, NONPOLITICAL ORGANIZATION, ESTABLISHED IN 1934, DEVOTED TO PLANNING BY AMERICANS IN AGRICULTURE, BUSINESS, LABOR, AND THE PROFESSIONS

